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SUBJECT: INDONESIA ENERGY AND MINING HIGHLIGHTS-JULY 2006

11. Summary. On June 17, the Downstream Regulatory Body BPH MIGAS announced the Bakrie Group won the tender for the USD 1.2 billion, 1,120-km pipeline from East Kalimantan to Central Java. On July 24, Britain's BP, Indonesia's Medco and a consortium of state oil company Pertamina and Amerada Hess signed gas supply agreements with buyers. On July 3, Minister of Energy and Mineral Resources Purnomo Yusgiantoro announced a plan to build 11 biodiesel plants by the end of 12006. On July 14, Australia's Nullarbor announced its acquisition of a 40 percent interest in the Belida Production Sharing Contract (PSC). On July 12, China's Citic Resources announced its acquisition of a 51 percent interest in the Seram Non-Bula PSC. In July, Pertamina raised unsubsidized fuel prices by an average of 2.8 percent. On July 24, Australia's Agincourt Resources announced its acquisition of Newmont Horas Nauli, owner of the Martabe mine concession in North Sumatra. On July 5, Kobe Steel said it would develop a pilot project to process Upgraded Brown Coal (UBC) in South Kalimantan. This report uses an exchange rate of Rp 9,070/USD. End Summary.

East Kalimantan - Central Java Pipeline Project

12. On June 17, the Downstream Regulatory Body BPH MIGAS announced the Bakrie Group won the tender for the USD 1.2 billion pipeline from East Kalimantan to Central Java. The 1,120 kilometer pipeline will stretch from Balikpapan, East Kalimantan to Semarang, Central Java and have a capacity of 1,000 trillion cubic feet per day. BPH MIGAS chose the Bakrie Group after the company offered a toll fee of USD 0.814 per million British thermal unit (mmbtu), beating offers by state gas company PGN and state manufacturing and engineering firm PT Barata Indonesia. The group claimed to have secured several memoranda of understanding (MOU) with buyers in Central Java including with Indonesia Power, according to media reports. Investors and industry analysts have given the project a mixed reception. The main concern for the project is the availability of gas supply from East Kalimantan, according to analysts. Most Kalimantan gas producers do not have sufficient reserves to fully meet their commitments to supply the Bontang LNG plant. Most industry watchers say the Bakrie Group will need to negotiate with gas producers to ensure sufficient gas supplies for the pipeline.

Gas Supply Agreements

13. On July 24, Britain's BP, Indonesia's Medco and a consortium of state oil company Pertamina and Amerada Hess signed gas supply agreements with buyers. The gas contracts involve an aggregate total of 331 trillion British thermal units (TBTU) and range from six to eleven years. The combined value of the contracts is reportedly worth USD 1.5 billion, with a unit price starting at USD 2.7 per mmbtu. BP will supply state fertilizer producer Pupuk Kujang from its Offshore Northwest Java field at a contract rate of USD 3.7 per mmbtu. The contract price sets a new benchmark for gas sold to fertilizer firms. Traditionally, fertilizer firms paid a unit price ranging from USD 1 - 2 per mmbtu.

Table 1: Gas Supply Agreements

Suppliers	Buyers	Start Year	Contract Years	Volume (TBTU)
Medco EP	Mitra Energi Buana	2007	6.5	6.0
BP Plc	Pupuk Kujang	2007	11	1.4
Pertamina/Amerada	PT PLN	2008	12	323.7

Biofuel Update

14. On July 3, Minister of Energy and Mineral Resources Purnomo Yusgiantoro announced a plan to build 11 biodiesel plants this year with an annual capacity of 29 million liters. The country aims to increase biodiesel capacity to 1.3 billion liters by year 2010, or 10 percent of national transportation fuel consumption. Purnomo said the GOI's

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five year plan will require investments totaling Rp 200 trillion (USD 22 billion), including for the purchase of 6 million hectares of land for feedstock cultivation. Separately, Agriculture Minister Anton Supriantono told reporters that the GOI will allocate 6 million tons of crude palm oil (CPO) for feedstock for the biodiesel plants.

Table 2: Projected Biodiesel Supply

Year	Capacity (Million Liters)
2007	187
2008	377
2009	1,200
2010	1,337

Source: Ministry of Energy and Mineral Resources

Acquisition Update

15. On July 14, Australia's Nullarbor announced the completion of a farm-out agreement in the Belida Production Sharing Contract (PSC), South Sumatra. The Australian company agreed to purchase PT Sele Raya Belida, a 40 percent interest holder in the Belida PSC. The block is estimated to contain up to 200 million barrels of oil reserves. Separately, Nullarbor also said it reached an agreement with Pertamina to fund a feasibility study for the construction of a biodiesel plant.

16. On July 12, China's CITIC Resources announced its acquisition of a 51 percent interest in the Seram (Non Bula) PSC, Maluku from Kuwait's KUFPEC Ltd. KUFPEC retained a 30 percent interest in the PSC, but Citic will take over KUFPEC's operatorship until the contract expires in 2019. The deal was valued at USD 97.4 million, according to media reports. The PSC covers an area of around 4,500 square kilometers (kms) with an average production of 4,300 barrels of oil per day (bopd) in 2006. CITIC is an integrated natural resources and commodity company listed on the Hong

Kong stock exchange with assets located mainly in Australia and China.

Fuel Market Update

17. State petroleum company Pertamina increased industry fuel prices in July by an average 2.8 percent, owing to a rise in global crude benchmarks. Pertamina left unchanged the prices for subsidized higher grade transportation fuels Pertamina, Pertamina Plus and Pertamina DEX.

Table 2: Unsubsidized Fuel Price Changes in 2006

Fuel Type	May	June	July	Change*
Transport**				
Pertamax	5,800	6,150	6,150	0.0
Pertamax Plus	6,050	6,250	6,250	0.0
Pertamina DEX	6,100	6,400	6,400	0.0
Industry***				
Premium	5,469	6,174	6,502	5.3
Kerosene	5,664	6,182	6,373	3.1
Diesel	5,512	6,288	6,321	0.5
Diesel Oil	5,327	5,789	6,065	4.8
Fuel Oil	3,662	3,745	3,759	0.4

*Percent change between May 2006 and June 2006.

** Pertamina and Pertamina plus are unleaded gasoline fuel with 92 and 95 octane level respectively. Pertamina DEX is a Euro 2 standard diesel fuel. All fuels are available at regular retail outlets. Quoted prices are valid for Java Island.

*** Industry wholesale price.

Table 3: Pump Price Comparison (USD/gallon)

Country	Unleaded Gasoline	Auto Diesel
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Indonesia*	1.84	1.75
Philippine	3.10	2.63
Thailand	2.87	2.69
Singapore	4.30	3.29
USA	3.00	2.98

Note: *Indonesia subsidized price. Prices as of July 31, 2006.

Sources: Pertamina, EPPO, Philippine DOE, EIA

Agincourt Acquired Newmont's Martabe Mine

18. On July 24, Australian listed gold company Agincourt Resources announced its acquisition of Newmont's Martabe gold and silver mine in North Sumatra. The company formed a joint venture with Indonesia's Dharmawangsa Group, which will have an option of acquiring up to a 30 percent share in the mine. The Martabe mine covers an area of just over 2,500 kms with estimated gold and silver reserves of 5.3 million ounces and 54.8 million ounces respectively. The acquisition, which reportedly cost USD 80.25 million, is scheduled for completion by the end of August 2006. Agincourt plans to spend USD 165 million to develop the Martabe mine.

Upgraded Brown Coal Project

19. On July 5, Kobe Steel said it would develop a pilot project to process Upgraded Brown Coal (UBC) in South

Kalimantan. Low-rank coal has a high moisture content and low heat value, resulting in less energy value. Indonesia has an estimated 57 billion tons of coal, over 50 percent of which is low rank, according to industry analysts. The proposed plant will process low-rank coal from PT Arutmin Indonesia's Satui mine, South Kalimantan, turning it into a cleaner, higher quality coal briquette suitable for use in power plants. Kobe said the initial plant capacity will be 600 tons per day plant with construction starting by the end of 2006. The project will cost USD 70 million with a completion date targeted in 2008, according to the company.

Selected Energy, Mining and Power Statistics

	Apr	May	Jun
Mining			
Coal Production (million tons)	10.3	10.1	-
Coal Export (million tons)	7.4	8.4	-
Copper concentrate (`000 dmt)	191.2	206.8	210.2
Copper (`000 ton)	50.6	51.3	55.1
Oil			
Oil production (mmbpd)	1.03	1.03	1.03
ICP* Average (USD/barrel)	70.3	70.0	68.1

Note: Preliminary 2006 figures, except for ICP.

* Indonesian Crude Price; dmt (dry metric ton); mmbpd (million barrels per day); MW (megawatt)

Sources: Directorate of Coal Enterprise, MIGAS, PETRAL

PASCOE